



**MINUTES FROM THE MEETING OF
THE CASH MANAGEMENT POLICY BOARD
MAY 23, 2018**

A meeting of the Cash Management Policy Board (the "Board") was held on May 23, 2018 at 10:00 a.m. in the Buck Library of the Buena Vista Conference Center, located at 661 S. Dupont Highway, New Castle, DE 19720.

Board Members Represented or in Attendance:

Mr. John Flynn, Board Chair
Mr. Dave Marvin, Co-Chair, Investment Subcommittee
Mr. Mike Karia, Co-Chair, Investment Subcommittee
Mr. Warren Engle, Co-Chair, Banking Subcommittee (Telephonically)
The Honorable Kenneth Simpler, State Treasurer
Mr. Jeffrey Bullock, Secretary, Department of State

Board Members Not Represented or in Attendance:

Ms. Lynda Messick, Co-Chair, Banking Subcommittee
Mr. Michael Morton, Controller General
Mr. Richard Geisenberger, Secretary, Department of Finance

Others in Attendance:

Ms. Nora Gonzalez, Deputy State Treasurer, Office of the State Treasurer ("OST")
Mr. Joshua Berkow, Director of Debt and Cash Management, OST
Mr. Todd Feeley, Merchant Services Program Manager, OST
Mr. Stephen McVay, Cash Manager, OST (Telephonically) Ms. Susan Steward, Policy Advisor, OST
Mr. John Krimmel, Partner, NEPC
Ms. Jennifer Appel, Research Analyst, NEPC

CALLED TO ORDER

The meeting was called to order at 10:03 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Flynn and seconded by Mr. Marvin to approve the minutes of the February 28, 2018 Board meeting.

MOTION ADOPTED UNANIMOUSLY

NEPC PERFORMANCE REPORT

Mr. Krimmel provided a review of portfolio performance and market conditions. Mr. Krimmel explained that while markets remained strong in January, overall performance declined in both February and March. Mr. Marvin suggested adding a few key bond indices to the Index Performance summary going forward, as the current chart contains primarily equity trends. Mr. Krimmel then reviewed the State's portfolio performance, highlighted by a 19 basis points ("bps") gain in the liquidity portfolio, and a 29bps loss in the reserve portfolio, primarily due to the widening of credit spreads and the transition to the new portfolio architecture.

INVESTMENT SUBCOMMITTEE REPORT

Investment Manager Conversion Update

Mr. Krimmel provided an update on the conversion to the new investment managers, and the development of their portfolios. Mr. Krimmel indicated all but one of the investment managers have achieved their respective duration targets, with the final manager, Chandler, expected to reach target duration by the end of the second quarter. Mr. Krimmel stated additional credit repositioning is likely to occur over the next two quarters, as the managers achieve their desired portfolio allocations. Over the next quarter, OST and NEPC will remain in constant contact with the managers to assess the impact of any realized losses on the portfolio as well as validate the Delaware Economic and Financial Advisory Council ("DEFAC") income forecast for FY19. To date, the DEFAC FY18 forecast remains unchanged.

Review and Approval of School and Special Funds Rate for FY2019

Ms. Gonzalez discussed the School and Special Funds rate methodology recommendation memo. Ms. Gonzalez indicated the Board is tasked with setting the interest rate paid on School and Special Funds (SSFs) on deposit with OST. Ms. Gonzalez stated OST reexamined the rate and methodology to provide assurance that deposited funds were paid an appropriate and equitable rate, consistent with prevailing market conditions.

Ms. Gonzalez recommended the SSF rate for FY19 and beyond be a collared liquidity rate based on 12-month rolling averages, capped at 100% of the 12-month rolling average total portfolio return with a floor at 0%, even when the liquidity return falls below zero.

Treasurer Simpler indicated OST staff performed a historic analysis of several alternative methodologies to ensure an appropriate and equitable rate. Each methodology was back-tested over a period of 20 years to approximate relative and absolute performance. The Fed Funds rate was used as a proxy for government money market fund rates as money market rates closely track the Fed Funds rate.

Mr. Krimmel stated that when the rate is smoothed over a period of time, the pattern holds, and should provide a more predictable return for School and Special Funds going forward.

Members agreed the proposed rate was appropriate and equitable which was demonstrated by how proximate the returns were with government money market returns and the elimination of negative arbitrage months, respectively.

A MOTION was made by Mr. Engle and seconded by Mr. Karia to approve the SSFs rate methodology for FY2019.

MOTION ADOPTED UNANIMOUSLY

Review and Approval of Contract Extension for Endowment Managers

Ms. Gonzalez stated the current contracts will expire in July, and there are two, one-year, extensions remaining on the contracts. Ms. Gonzalez stated that OST would like approval to continue the contracts for the duration of one-year.

A MOTION was made by Mr. Bullock and seconded by Mr. Karia to extend the contracts of the current Endowment Managers for one (1) year effective July 1, 2018.

MOTION ADOPTED UNANIMOUSLY

Outside Investment Accounts Update

Ms. Gonzalez stated that all reported outside investment accounts have been transferred to be managed by the State's managers.

BANKING SUBCOMMITTEE REPORT

Merchant Services Implementation Update

Mr. Engle reported that the implementation has been completed. Ms. Gonzalez introduced Mr. Todd Feeley, as the Merchant Services Program Manager for the State. Ms. Gonzalez stated Mr. Feeley was hired on November of 2017 to manage the conversion from EPX to Bank of America Merchant Services ("BAMS").

Mr. Feeley stated that the conversion was successfully completed by April 30, 2018, prior to the end of the contract extension with EPX on May 8, 2018. Ms. Feeley reported that 189 merchant accounts were revised as part of the process, a total of 153 were converted from EPX to BAMS and 36 were closed at EPX due to inactivity.

Currently, OST is reconciling the first series of invoices and evaluating additional equipment needs. BAMS and Govolution, the State's gateway services provider, are providing assistance with agency requests, user trainings and system-related questions. OST expects to conduct a post-mortem to evaluate the project overall.

Banking Structure Review Project Update

Ms. Gonzalez introduced Mr. Joshua Berkow, the new Director of Cash and Debt Management. Mr. Berkow provided an update on the Banking Services Request for Proposals ("RFP"), and indicated the target release date is the week of June 11, 2018. Mr. Berkow reviewed the scope of services, the current timeline and key dates for the RFP. OST is providing the vendors with eight (8) weeks to respond, with the goal of requesting Board approval for selected vendor(s) at the Board meeting on November 22, 2018.

Treasurer Simpler stated that the timeline is aggressive, but is hopeful that the team can complete this timeline. Mr. Berkow stated that the success will rely upon the support from key outside agencies, and has stated that the request for support has been well received thus far. Treasurer Simpler stated that OST is working to amplify the availability of OST resources, but will need to see what the State's budget will allow.

Mr. Flynn inquired about the optimal number of vendors required to manage the State's banking needs. Mr. Berkow acknowledged recommendations from PFM Asset Management regarding potential consolidation of services to be provided by the same financial institution. Mr. Berkow further stated that the RFP would be used as a learning tool to validate the final structure and optimal number of providers.

Mr. Flynn asked how many banks are currently managing the State's needs. Mr. Berkow reported ten (10) banks service the State, with many of them only providing a single service.

OTHER MATTERS OF THE BOARD

Administrative Procedure for Guidelines Update

Ms. Gonzalez reported that OST submitted by the deadline on May 15, 2018 all documentation required by the Administrative Procedure Act to complete the update of the Statement of Objectives and Guidelines for the Investment of State of Delaware Funds ("Guidelines"). Ms. Gonzalez indicated the updated Guidelines would be published by the Registrar Office in the next issue of the Delaware Register of Regulations anticipated to be released on June 1, 2018.

Review and Approval of the Board Annual Report

Ms. Gonzalez presented the FY2017 Annual Report for consideration by the Board. Members approved and directed OST to circulate the report to members of the General Assembly.

A MOTION was made by Mr. Marvin and seconded by Mr. Karia to adopt the Board's Annual Report for FY2017.

MOTION ADOPTED UNANIMOUSLY

Budget Smoothing and Stabilization Fund

Treasurer Simpler provided the Board with an update on the work of the DEFAC Advisory Panel on fiscal controls and budget smoothing.

PUBLIC COMMENTS

No members of the public present.

NEXT MEETING

The next meeting is scheduled for August 22, 2018.

ADJOURNMENT

A MOTION was made and seconded to adjourn the meeting of the Board at 10:57 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

John Flynn
Chair, Cash Management Policy Board